

# REVISED ANALYSIS

## Franchise Tax Board

Author: Aghazarian Analyst: Rachel Coco Bill Number: AB 288  
Related Bills: See Legislative History Telephone: 845-4328 Revision of bill as amended: 3/10/2003  
Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** Agricultural Water Filter Systems & Equipment Deduction

- ☒ REVENUE ESTIMATE CHANGED.  
☐ FURTHER CONCERNS IDENTIFIED.  
REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED  
☒ March 10, 2003, STILL APPLIES.  
☐ OTHER - See comments below.

### SUMMARY OF BILL

This bill would allow a deduction for the cost of a water filter system and equipment used to prevent contaminated agricultural water from entering public waterways or underground aquifers.

### SUMMARY OF REVISION

The revenue estimate contained in the department's analysis of the bill as introduced February 5, 2003, has been revised. The new revenue estimate is based on the March 10, 2003, amendment and only includes the revenue impact of the water filter system and equipment deduction.

The remainder of the department's analysis of the bill as amended March 10, 2003, still applies.

### POSITION

Pending.

### ECONOMIC IMPACT

#### Revenue Estimate

This bill would result in the following revenue losses:

Revenue Impact of AB 288 Tax Years Beginning After 1/1/2003 Enactment Assumed After June 30, 2003 \$ Millions			
	2003-4	2004-5	2005-6
Total Revenue Impact	-5	-4	-4

Any changes in employment, personal income, or gross state product that could result from this bill are not considered.

Board Position:

☐ S ☐ NA ☐ NP  
☐ SA ☐ O ☐ NAR  
☐ N ☐ OUA ☒ PENDING

Legislative Director  
Brian Putler

Date  
04/9/03

### Revenue Discussion

Discussions with industry experts indicate that replacing existing systems as well as the incentive effect of this bill would induce approximately 200,000 acres of irrigated land in California to adopt water filter systems or equipment annually. Industry experts also indicated that there are no complete systems or equipment that filter or isolate contaminated water available for purchase. Additionally, based on tax returns, it was determined that approximately 50% of taxpayers that report farm income would qualify for this deduction based on available tax liabilities.

A number of factors affect filtration costs; soil condition and the type of contaminant are important factors. After discussions with industry experts, the average cost per acre was assumed to be \$500. In California about 35 to 40% of acreage can benefit from this proposal due to soil conditions. The impact for 200,000 acres would be an annual \$4 million loss (200,000 acres × \$500 cost per acre × .50 usage rate × .08 tax impact). This estimate was increased to a \$5 million loss for the first fiscal year (03/04) due to the recent suspension of NOL deductions that for some taxpayers increases the amount of credits that can be used.

In order to comply with federal and state laws, about 40% of California irrigated land (9 million acres) has a filtering system already in place. A double-declining depreciation method was used to calculate deductions under current law, assuming 18 years of depreciable life for a typical system. As a result, 1/18 of a typical system is assumed to be replaced each year, which would be eligible for expensing under this bill.

### **LEGISLATIVE STAFF CONTACT**

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